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STATEMENT BY THE HONORABLE  
 SECRETARY OF AGRICULTURE  
 BOB BERGLAND  
 BEFORE THE

COMMITTEE ON BANKING HOUSING AND URBAN AFFAIRS  
 UNITED STATES SENATE  
 August 20, 1980

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Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today to discuss the series of measures the Administration has taken in response to the invasion of Afghanistan by armed forces of the Soviet Union.

We regard this hearing as an important opportunity to set the record straight --to discuss the nature of the events surrounding Administration policy, to separate the rhetoric from the facts, and to report the impacts of our policies on the USSR and on the U.S. food and agricultural sector.

The facts are indisputable. Late last December, Soviet troops launched an invasion of Afghanistan. On January 4, the President announced a series of sanctions against the Soviets to signal just how serious we considered their breach of international law and world stability. Of these, probably the most important to the Soviet economy were the agricultural trade restrictions affecting most agricultural exports to the USSR beyond the 8 million tons of wheat and corn we were committed to supply under the U.S.-USSR Grains Agreement. U.S. exports to the USSR would have been about \$4.8 billion in calendar year 1980 in the absence of the sanctions; about \$4 billion of that would have come from agricultural exports.

To make abundantly clear how we regarded the Soviets' flagrant departure from the norms of civilized behavior, we disrupted our most important economic and cultural ties with them. In communicating to the Soviet Union that such an aggressive act could not be taken without a commensurate price, the Soviets were surprised at our willingness to disrupt normal trade, business and cultural relationships. The strength of the reaction of the United States and our allies could not have been anything but a powerful deterrent. Therefore, the success of this policy is measured not only in terms of economic impact, but more importantly in terms of the unmistakable political message of our actions and those of our allies.

But the economic sanctions were more than symbolic. Their impact on the Soviet people and economy have been significant. Thirteen million tons of U.S. corn exports and 4 million tons of wheat exports were suspended from shipment to the Soviet Union. Our sales to the Soviet had gone beyond the traditional purchases of grains. For the first time, the Soviets had made significant purchases of soybeans and products and poultry meat. A series of major pork purchases also seemed likely. These, too, were halted. The sale and export of phosphates used in the production of fertilizers were also prohibited.

As a result of the suspension, the value of agricultural exports to the Soviet Union will now total about \$1.1 billion this calendar year instead of the \$4 billion in prospect, and will be attributable mostly to the 8 million tons of wheat and corn the U.S. remained willing to sell in order to maintain our international commitments.



Following the extremely poor 1979 feed and forage crop in the USSR, the disruptions of trade in agricultural products presented the Soviet leadership with problems of a new magnitude which they had not expected.

The suspension of agricultural exports had its main impact on the important --but vulnerable--livestock sector of the Soviet economy. Improving this sector's performance and increasing the availability of meat, milk and eggs has been a major goal of Soviet planners and a long-term expectation for Soviet citizens. But these expectations presupposed a reliance on the world market for numerous agricultural imports--feedgrains, oilseeds, mineral fertilizers and other products --for which in many cases, the United States is the world's predominant exporter.

This reliance during the 1979/80 marketing year was at its peak--the consequence of the poor 1979 crops in the Soviet Union. They had purchased more than ever before in an attempt to minimize the adverse impact of their poor crops. With the suspension, the Soviets were forced to take even more restrictive measures.

### The Impacts

As a result of the sales suspension, a series of predictable impacts occurred in the Soviet Union. The record shows:

- o The Soviets, denied about 10 percent of their feed grain requirements during the first half of the year, began a massive drawdown of precious reserve stocks, leaving them more vulnerable to the extreme variability of their weather patterns and fluctuations in their own crop production.
- o Barred from unlimited access to the world's largest source of grains, they have been forced to search for unprecedented quantities of grains and oilseeds from suppliers, buying whatever quantities have been available at premium prices, disrupting their shipping schedules and leaving their ports congested as a result.
- o The Soviet government took action, adopting measures to increase fodder production in 1980, calling for more irrigated pastures and making additional passenger cars available to farm workers with good performance all for the purpose of reducing the "overconsumption" of grain.
- o In spite of these measures, the Soviets have made adjustments in livestock feeding, slaughtered lighter-weight animals and slowed their expansion of livestock herds.
- o But, even with adjustments from normal practices, meat and milk production have fallen off substantially. June's meat production level was reported to be 11 percent below last year. Overall, meat production in the first half of the year has been reported down from 1979.
- o Per capita consumption of meat--which Soviet planners had hoped to boost to 63 kilos by 1980--has remained about constant.
- o And, recent reports of short supplies of meat and dairy products and of consumer dissatisfaction with the scarcities have filtered through to the West, and have confirmed the impact of our strategies.



## The Predictions and the Results

Last January, before this very committee, we made our first assessment of the likely impacts of the suspension of sales to the USSR. Testifying before you, Under Secretary Dale Hathaway stated:

"The suspension of grain sales to the USSR will sharply reduce the availability of grain to the Soviet livestock industry, especially in the late winter and spring of 1980.....

We [now] estimate that use of grain for feed during 1979/80 will drop at least 5 percent from the pre-suspension forecast. The reduction in grain fed will be exacerbated by its concentration during the late winter, spring and summer months. This is the period when U.S. exports will cease due to the trade suspension and when the Southern Hemisphere production is moving into position for export. Consequently, the relative shortfall during this period will be more severe and may force a reduction in hog and poultry numbers. The dislocations caused in transport and location of feed supplies also may worsen production performance.

Soviet meat production in 1980 could be down significantly from 1979 output. Any downturn in Soviet meat production would result in reduced per capita consumption unless offset by meat imports. Meat consumption has stagnated at about 57 kilograms (125 pounds) per capita since 1975, following rapid growth during the first half of the 1970's. The prospective drop in 1980 meat output could be expected to lower consumption roughly by 4 percent and aggravate the concerns of Soviet consumers expecting further improvements in meat supplies."

At that time, we predicted that the Soviets might be able to purchase from other suppliers 4 to 9 million of the 17 million tons of grain withheld by the United States.

After reviewing trade data provided by other exporters and completing our own assessment of Soviet supply and demand, we now believe shipments of grain to the Soviet Union from all sources were intended to reach about 37.5 million tons between July 1979 and June 1980.

During the last half of 1979, shipments to the Soviets were about 17 million tons. With this level of imports, and drawing heavily upon reserve stocks, livestock feeding was probably being maintained in spite of their poor 1979/80 harvest. If another 20 to 21 million tons could have been shipped during the first half of 1980, they probably could have achieved an higher increase in feed use. Thus, they could have maintained--or even expanded--livestock output in the wake of their worst crop in four years.

Because of the suspension, however, our information indicates shipments to the Soviets were only about 14 million tons during the first half of 1980--6.5 million less than they had expected and about equal to 10 percent of that country's requirements of grain for feed over the six-month period.



As a result of the tighter supplies, the rate of growth in Soviet cattle and poultry inventories in the socialized sector appears to have slowed. Preliminary cattle numbers on July 1 were but six-tenths of a percent above a year ago, compared with increases of 1.2 percent and 1.8 percent registered on the same date in 1979 and 1978, respectively. Poultry numbers were up 2.7 percent, compared with a 6.3 percent increase July 1, 1979 and a 7.9 percent gain for the same date in 1978.

Hog inventories on July 1 were 1.8 percent below their July 1, 1979 levels and are likely to remain below year-earlier levels for the remainder of the year.

Preliminary Soviet numbers show that average slaughter weights for both cattle and hogs for slaughter were lower for the first half of 1980 than for the first half of 1979.

Milk production on state and collective farms for January-June 1980 was 4 percent below year-earlier levels. Milk cow productivity was 5 percent below for the same period, a further indication of feeding stress.

With fewer animals slaughtered and at lighter weights, Soviet meat output this year will be less than the 15.5 million tons produced in 1979 and also in 1978. The Soviets themselves reported that in the first six months of 1980, liveweight meat output on state and collective farms was down one percent from a year earlier. Pork was down 4 percent, beef down 2 percent and poultry and sheep and goat meat up by 11 percent. Considering the Soviet estimates, we are now predicting total meat production to be 15.3 million tons for 1980. Overall, we expect all of the reduction to occur in pork production--which relies most heavily on feed concentrates.

The Soviets have relied on meat imports to complement their supplies of meat. Last year, they report imports of 611,000 tons of meat--an unexpectedly high amount, far above our earlier estimate of 390,000 tons. As a result of that extreme increase in imports, we now believe that meat imports in 1980 will reach 700,000 tons--with the largest increase in meat shipments coming from Argentina and Australia.

But in spite of the Soviets importing a record quantity of meat, citizens of the Soviet Union are not likely to see any improvement in their diets. Since 1975, the annual per capita consumption of meat has remained near 57 kilograms, including consumption of slaughter fat and offals. With no possibility of raising that figure this year, the disappointing reality to Soviet leadership is that they cannot meet their stated goal of 63 kilos per person in the last year of the tenth five-year plan. They will have to be satisfied to just maintain the status quo.

More important than these statistics are the implications for Soviet leaders. In recent weeks, there have been frequent and unprecedented reports of strikes and work stoppages in Soviet motor vehicle plants resulting from consumer dissatisfaction with shortages of meat and dairy products. The shortages cited are precisely of the products at which the U.S. trade restrictions have been directed. Indirectly, they confirm the impact of the sanctions.



### Cooperation with Other Exporting Nations

From the outset, we knew that for the suspension to be fully effective, we would have to receive the support of other grain exporting countries. From the suspension's earliest days, we have met with the major exporters and, in general, received such cooperation.

Australia, Canada and the European Community have undertaken specific commitments to restrain sales to the Soviet Union in order not to replace shipments denied by the United States. Argentina has not agreed to restrain sales, but has cooperated in monitoring trade flows.

With the support of other major grain exporting countries in the U.S. suspension action vital, the governments of Canada, the EC and Australia have confirmed that the measures being taken in concert will be continued as they begin their 1980/81 marketing seasons. Meetings for the purpose of monitoring the flow of grain to the USSR also proceed, with Argentina continuing to provide information on shipments.

Marketing authorities from several of these cooperating countries continued to make some new commitments for 1979/80 shipment of grain to the USSR, but these have not been inconsistent with our understandings. As for new sales for shipment in the 1980/81 season, these have run parallel with our own decision to license new Soviet sales for shipment from October 1 through next September.

### 1980 Soviet Grain Supplies

As for the longer-term implications of the sales suspension, the final results will depend upon Soviet crop production, policy decisions and any of a series of factors beyond our control. We know, however, in order for the Soviets to rebuild stocks, maintain livestock inventories and output while reducing their high level of grain imports, total 1980 grain production would have to be record high. Record production is not the prospect for 1980.

Currently, total Soviet grain production is projected to reach about 210 million tons--well above the 1979 harvest of 179 million tons, but far below the record 237 million tons produced in 1978. This year's crop has been a late one, as a cool wet spring and summer have deterred its progress to the point that it is becoming increasingly susceptible to early frost. Spring crops have already been damaged by hot, dry conditions in certain areas. Even with good harvesting conditions though, this year's late crop may jeopardize early fall seedings.

Total Soviet imports of grain are likely to be slightly less than last year--around 28 million tons--of which some may be used to partially rebuild stocks.

According to last week's Export Sales report, 550,000 tons of U.S. wheat and 1.2 million tons of U.S. corn have been reported as sold to the USSR under the final year of our five-year agreement. In recent technical discussions with the Soviets, they confirmed their intention to purchase at least 3 million tons of wheat and 3 million tons of corn in the final agreement year. We actually expect the Soviets to purchase the full 8 million tons allowed to them.



The balance of the 28-million-ton estimate would have to come from other suppliers. Argentina just signed a five-year agreement with the Soviets, promising to supply the Soviet Union with 4 million tons of corn and sorghum and 500,000 tons of soybeans annually beginning in 1981.

The major exporters have agreed to sell only traditional levels of sales to the Soviets. Shipments by the cooperating exporters--Canada, Australia and the EC--are estimated at around 9 million tons, slightly above the year-earlier level. Of the minor exporters, few are able to provide large enough quantities to go far in meeting Soviet needs. Still as a group, these countries together with Argentina may supply more than a fourth of the Soviet's import needs in 1980/81.

With production at 210 million tons and imports of about 28 million tons, total quantity of grain available to the Soviets next year would be greater than the quantity available this year. This would limit major adjustments in the livestock sector and would imply some rebuilding of stocks.

#### The Domestic Impacts

While the suspension affected the Soviets, it also risked serious consequences for our own economy--with most of the impact affecting farm prices and farm income. We now know the net impact of the embargo on the U.S. farm and food sectors was relatively small--substantially smaller than previous and subsequent domestic crop supply and demand developments. The most immediate, and virtually unavoidable, impact of the suspension fell on producers who sold corn, wheat and soybeans at temporarily-depressed prices early in the year to meet other financial commitments.

The potentially much larger, wider-spread impact of the suspension was offset by the actions the President directed be taken to minimize the declines in farm prices and farm income. The measures we took included assuming contractual obligations for wheat, corn, soybeans and soybean products once destined for the USSR, keeping the displaced grains and oilseeds from collapsing the market; making increases in loan rates for wheat and feed grains and modifications in the farmer-owned reserve program to encourage producers themselves to isolate quantities of grains from the market; making some direct purchases of wheat, corn and poultry to help protect prices; continuing aggressive export market development activities and renewing emphasis on longer-term domestic market development such as through the use of grain in energy production.

Despite these actions, there was undoubtedly some impact on the balance of trade. After provision is made for changing trade patterns, we estimate that--in the absence of the suspension--at most another 4 million tons of feed grain and small quantities of soybeans and poultry would have been exported. At most, these lost exports were equivalent to 2 percent of the value of our agricultural product exports, which will be up about \$8 billion this year, to an all-time record \$40 billion.

The added supplies carried over at the end of the 1979/80 marketing year also tended to keep farm prices slightly lower than they would have been otherwise. However, the actions we initiated after the suspension helped to keep these losses to no more than one-half of one percent of gross farm receipts. At the same time, however, lower feed grain and soybean receipts to crop producers meant somewhat lower feed costs to livestock producers.



While difficult to measure, the suspension probably kept food price increases in 1979/80 about one-tenth of 1 percent lower than they otherwise would have been.

Farm prices have now rebounded. However, while the stronger prices are projected to boost cash receipts to record levels, we have known since November 1979 that net farm income would decline in 1980. This is attributable to sharply higher input prices and abnormally large crop and livestock product production. But to understand this year's situation, it is necessary to remember that crop production last year was record large--the consequence of very unusual weather during the growing season.

Larger-than-expected crops pushed corn and soybean prices down during the last half of 1979, well before the suspension. Meat animal production became excessive late in 1979 and during the first half of 1980, hog and poultry producers, as well as cattle feeders, were losing money. It is the producers in this sector--those who produce meat animal and eggs--who are experiencing most of the decline in farm income in 1980.

### The Agricultural Outlook

Recent crop developments are enhancing price and income prospects for U.S. agriculture.

According to our most recent assessment of world crop conditions, world wheat production and consumption are likely to be in close balance. Stocks may increase slightly.

World rice production will increase this year--enough to permit a gain in per capita consumption. This is in sharp contrast to last year when both per capita consumption and rice stocks declined.

World coarse grain production is not expected to meet consumption requirements and for the second year in a row, stocks are likely to fall.

World oilseed production is also expected to fall short of the world consumption level and world stocks will decline.

World cotton production and consumption will probably be in close balance with stocks levels remaining very low.

But while the rest of the world is generally maintaining or even increasing its production this year, weather conditions in this country are precipitating the greatest year-to-year decline in agricultural production to take place since the 1974 disaster. Our spring-planted crops and hay, in particular, have been hurt by July's adverse weather so that these crops may total 431 million tons--down 69 million tons from last year.

U.S. feed grain production is indicated to be 197 million tons--compared to 234 million last year--and below our total use estimate of 219 million tons for the 1980/81 season.

Oilseed production is indicated to be 59.8 million tons compared to the 72.5 million tons produced last year. Total use in 1979/80 is estimated at about 64 million tons and stocks at the beginning of the new season which begins September 1 are estimated at 13.3 million tons.



U.S. wheat production, however, is record high and with consumption expected to be 62 million tons, stocks should remain about the same.

In spite of these facts, we anticipate that we will be able to meet our domestic and export demands for food and fiber without difficulty. We have adequate stocks of grain in reserve and some in government hands. But as a result of supply-demand conditions, crops will be sold at significantly higher prices. Those producers who have grains in reserve will be the ones to reap the greatest benefits and overall, income prospects for them--and the agricultural sector as a whole--have improved. Unfortunately, those in the drought areas will have a difficult year as will most meat animal producers.

Food prices in 1980 will be up between 8 and 9 percent--a little more than expected before the hot, dry weather but well within the range we predicted last November before crop prospects were known and before the sales suspension was invoked.

#### "What If"

No one can say with any real precision what would have happened had the President not taken the action he did to demonstrate to the Soviets our outrage over the invasion of Afghanistan. Certainly, the actions he chose have been effective and far preferable to the military alternatives.

Looking in retrospect, we can say the decision was a hard one. Yet, we cannot say that agricultural producers would have been better off in the long run if the President had not acted as he did. Our farm exports will far exceed any prior years' records and will approach \$40 billion in value this fiscal year. The volume of these exports will be 25 million tons above 1979's volume of sales --reflecting sales to our traditional customers such as the Japanese and the European Community, but also new customers, including those we have acquired in the shifts in world trading patterns.

In retrospect, the decisions we made regarding domestic production in the wake of the suspension were sound, although at the time, we were seriously criticized for not diverting acreage from production immediately after the suspension was announced. With weather-reduced supplies this year, some grains once destined for the Soviet Union and taken off the market by producers and placed in the more-attractive reserve program will be available for sale by the producers themselves at sharply higher prices.

Within the context of the existing five-year agreement with the Soviets, we continue to sell grains to the USSR and we anticipate that they will continue to seek U.S. agricultural products in the future.

Digressing for a moment, it must be a sobering experience for the Soviet leadership to reflect on how long their citizens will be willing to wait for meat on their tables which their counterparts in Eastern Europe are already enjoying. It is noteworthy that in Poland--where meat consumption amounts to 72 kilos (28 percent higher than in the USSR)--a wave of strikes and work stoppages over increased meat prices is sweeping the land. It is not inconceivable that the Soviets--who know far better than we do the weaknesses and shortcomings of their system--might decide that living with the suspension is just not worth the price. We hope they would come to that conclusion soon.



But without the proper Soviet response, talk of lifting the suspension raises some important questions. First of all, it would communicate to the Soviets that we do not mean what we say--that for the sake of commercial gain, we acquiesce to their challenge to world peace and security.

We do not intend for that to happen.

Lifting the sales suspension would not improve conditions in the agricultural sector. As I pointed out, market conditions reflect how supplies relate to demand for them. With our production down and with our exports already moving at about capacity, no market benefit can be derived while the political repercussions would be severe.

Indeed, if we were to lift the suspension and if the Soviets were to turn back principally to the U.S. market, we could find increased world demand for feed grains--which would aggravate an already-tight supply situation--and reduced world demand for food grains--of which we have plenty for export.

Consumers would not benefit from an end to the suspension since it has had no appreciable affect on food prices either way.

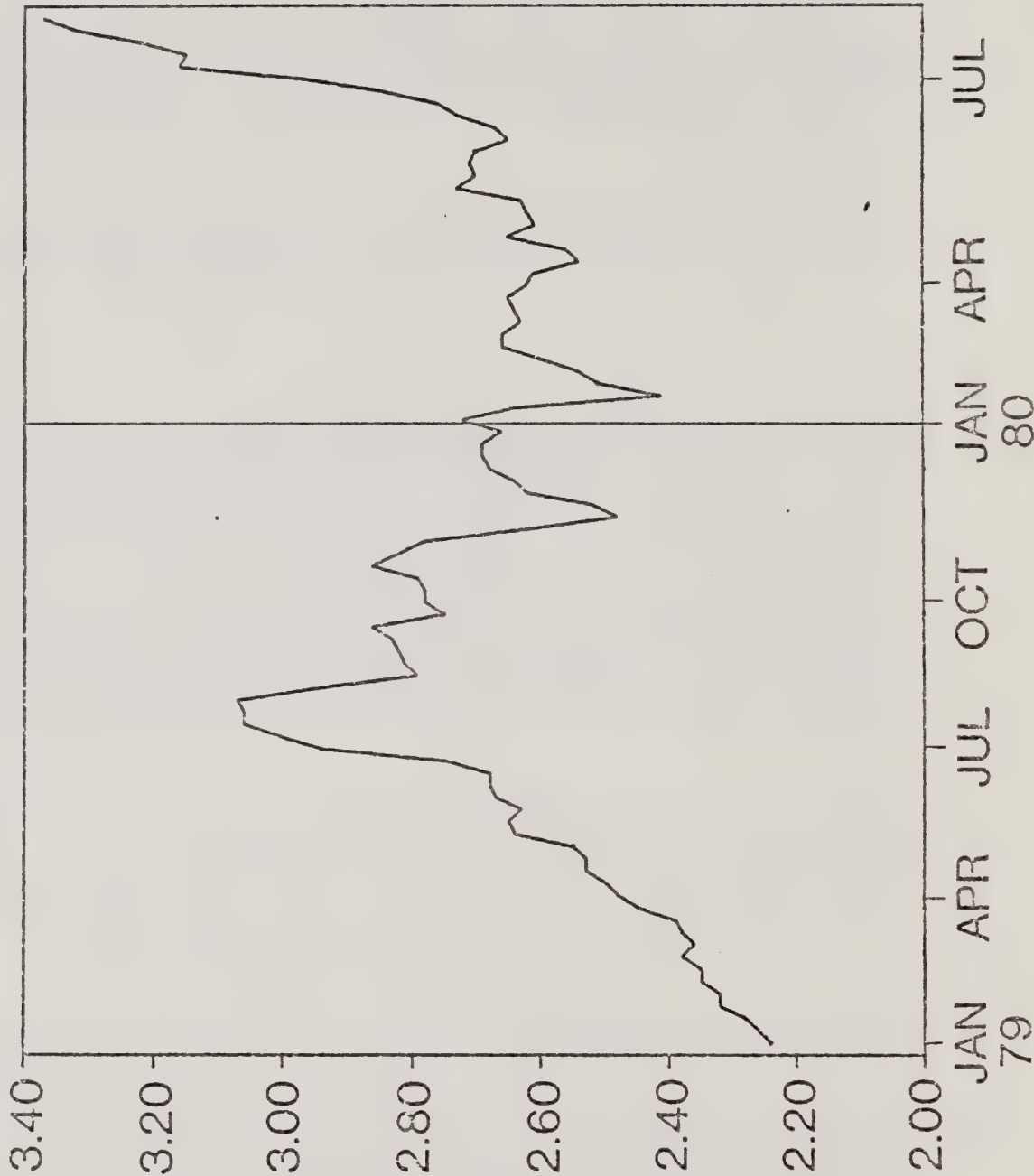
Given all the facts in the matter and the time to look back, the sales suspension to the Soviet Union appears to have been the right decision. It has strained the Soviet leadership's credibility in the sense they have not been able to live up to their promises to their own people. It has cost them financially and added inconvenience. While it required that our own agricultural policies and programs be tested under strain, it proved them sound.

The crucial message of our trade and cultural restrictions, however, does not lie in their precise measurement. Instead, the message is that the United States, committed to world peace and stability, could not continue to do business as usual with the Soviet Union. We are meeting our responsibilities.

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**Average Weekly Price:  
Chicago, Corn: Yellow No. 2  
1979-80**

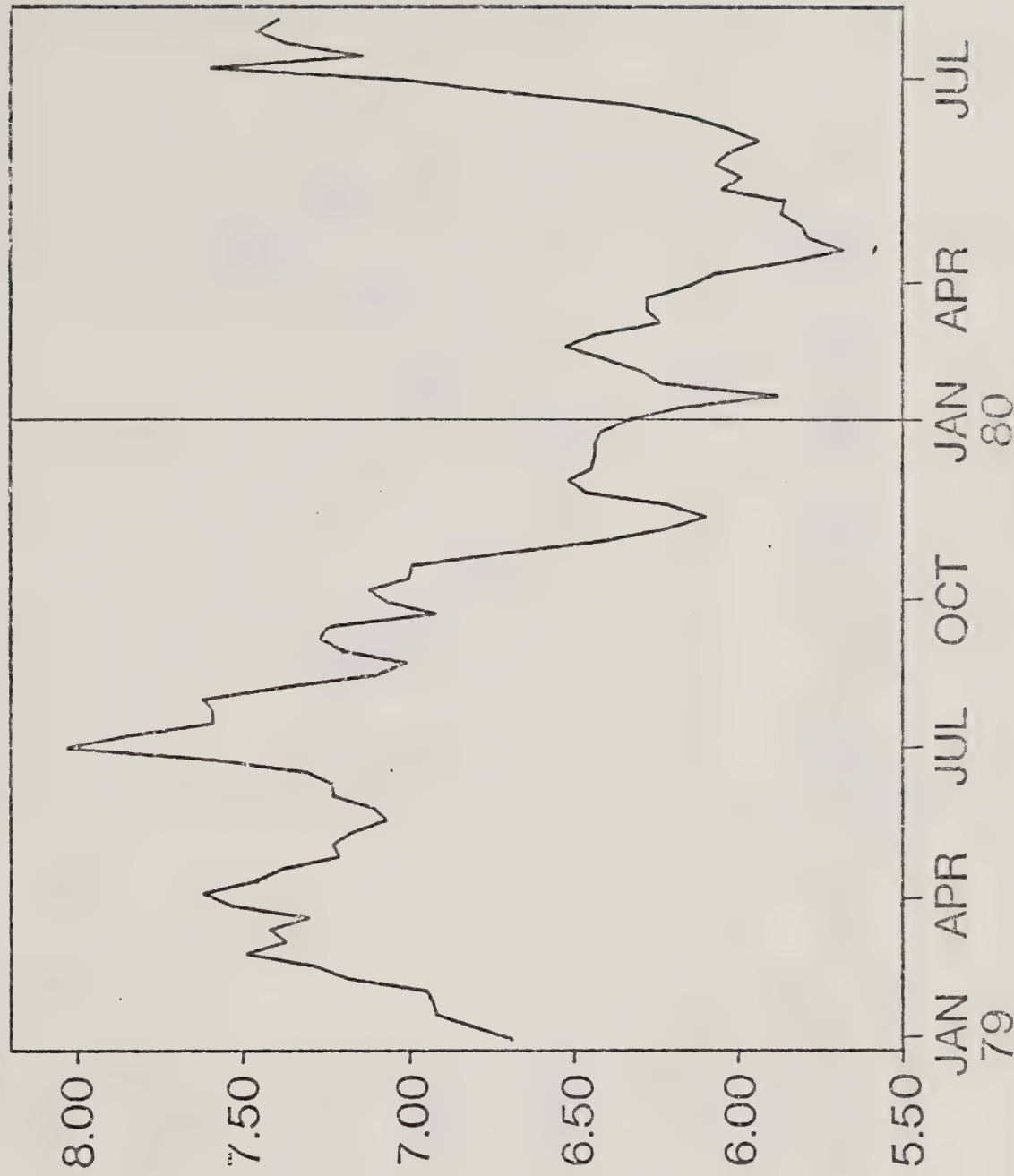
Dollars per Bushel





**Average Weekly Price:  
Chicago, Soybean No. 1  
1979-80**

Dollars per Bushel



**Average Weekly Prices:  
Kansas City, Wheat: Hard Winter No. 1  
1979-80**

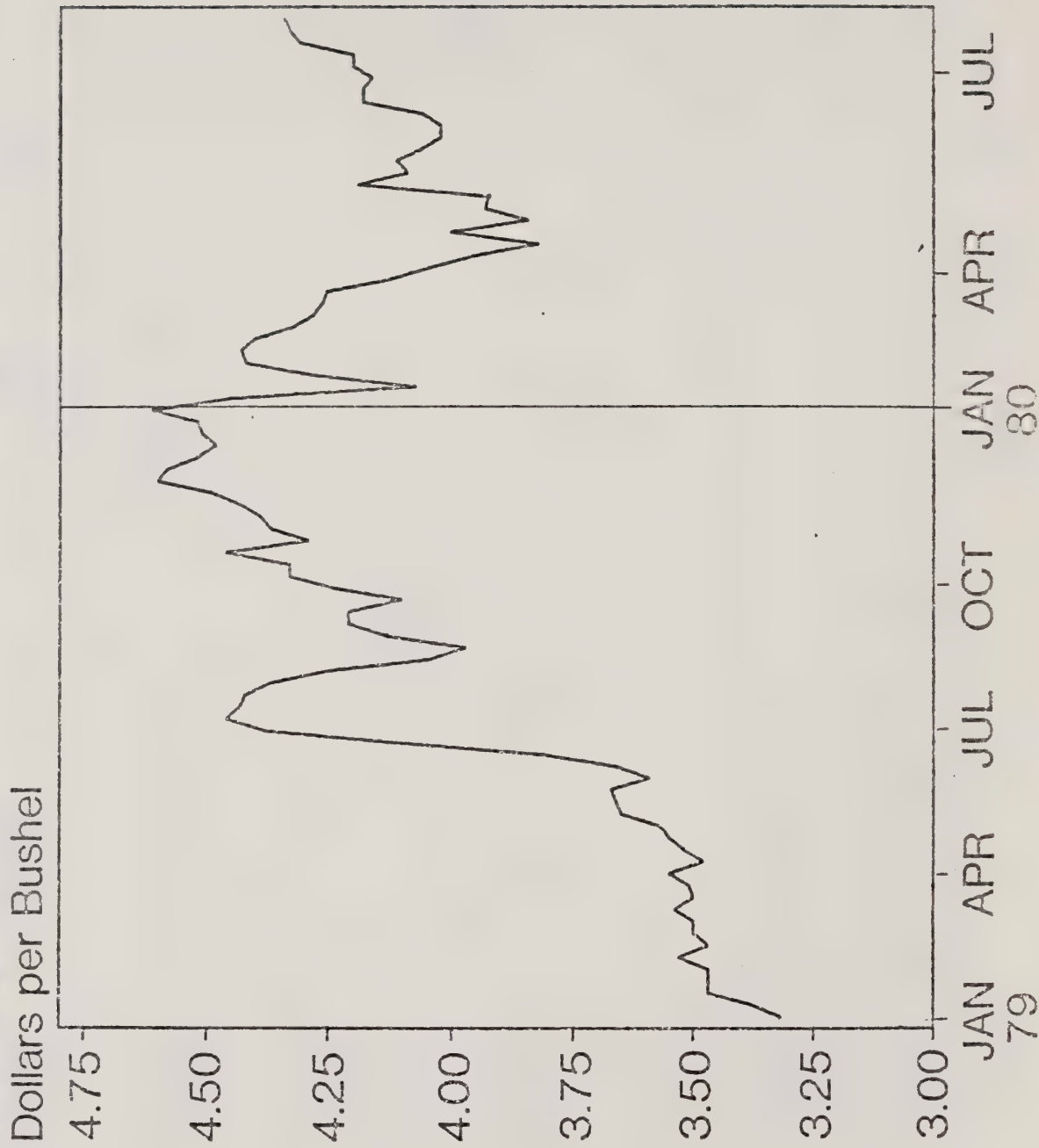




Table 1--U.S. agricultural trade balance, 1972/73-1979/80

	Year beginning October 1							
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	Forecast 1979/80
	----- Billion dollars -----							
Exports	14.98	21.61	21.85	22.76	24.00	27.30	31.98	40.0
Imports	7.74	10.06	9.47	10.51	13.38	13.89	16.19	17.5
Trade balance	7.24	11.55	12.38	12.25	10.62	13.42	15.79	22.5
	----- Million metric tons -----							
Export Vol- 1/	106.6	99.9	93.5	114.1	111.9	131.9	137.5	162.1

USSR Imports of Grain by Source 1972/73 - 1980/81  
July/June Years  
(Million Metric Tons)

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
Wheat									
U.S. 3/	9.5	2.7	1.0	4.0	2.9	3.3	2.9	3.9	--
Canada	4.2	1.6	.3	3.2	1.2	1.7	2.0	2.1	--
Australia	.9	.1	.8	1.2	.4	.3	.1	2.6	--
EC	.7	--	--	--	--	--	--	.6	--
Argentina	--	--	.7	1.2	.1	1.1	--	2.0	--
Others	.3	.1	--	.4	--	.2	.1	.6	--
Total*	15.6	4.5	2.5	10.1	4.6	6.7	5.1	11.8	13.0

Coarse Grains

U.S. 3/	4.2	5.2	1.3	9.9	4.5	9.2	8.3	11.4	--
Canada	.9	.2	--	1.3	.2	.2	.1	1.3	--
Australia	--	0	.1	.8	.1	--	--	1.3	--
EC	1.2	.5	.1	.5	.2	.2	.2	.2	--
Argentina	.1	.3	1.1	.2	.2	1.6	1.4	3.1	--
Others	.5	.2	.1	2.6	.3	.6	--	1.4	--
Total*	6.9	6.4	2.7	15.6	5.7	11.7	10.0	18.7	14.5

Total

U.S. 3/	13.7	7.9	2.3	13.9	7.4	12.5	11.2	15.3	8.0
Canada	5.1	1.8	.3	4.5	1.4	1.9	2.1	3.4	9.0
Australia	.9	.1	.9	2.0	.5	.3	.1	3.9	9.0
EC	1.9	.5	.1	.5	.2	.2	.2	.8	--
Argentina	.1	.3	1.8	1.4	.3	2.7	1.4	5.1	10.5
Others	.8	.3	.1	3.0	.3	.8	.1	2.0	--
Total*	22.5	10.9	5.2	25.7	10.3	18.4	15.1	30.5	27.5

--Denotes less than 50,000 tons

\* Totals may not add due to rounding. Excludes rice and pulses.

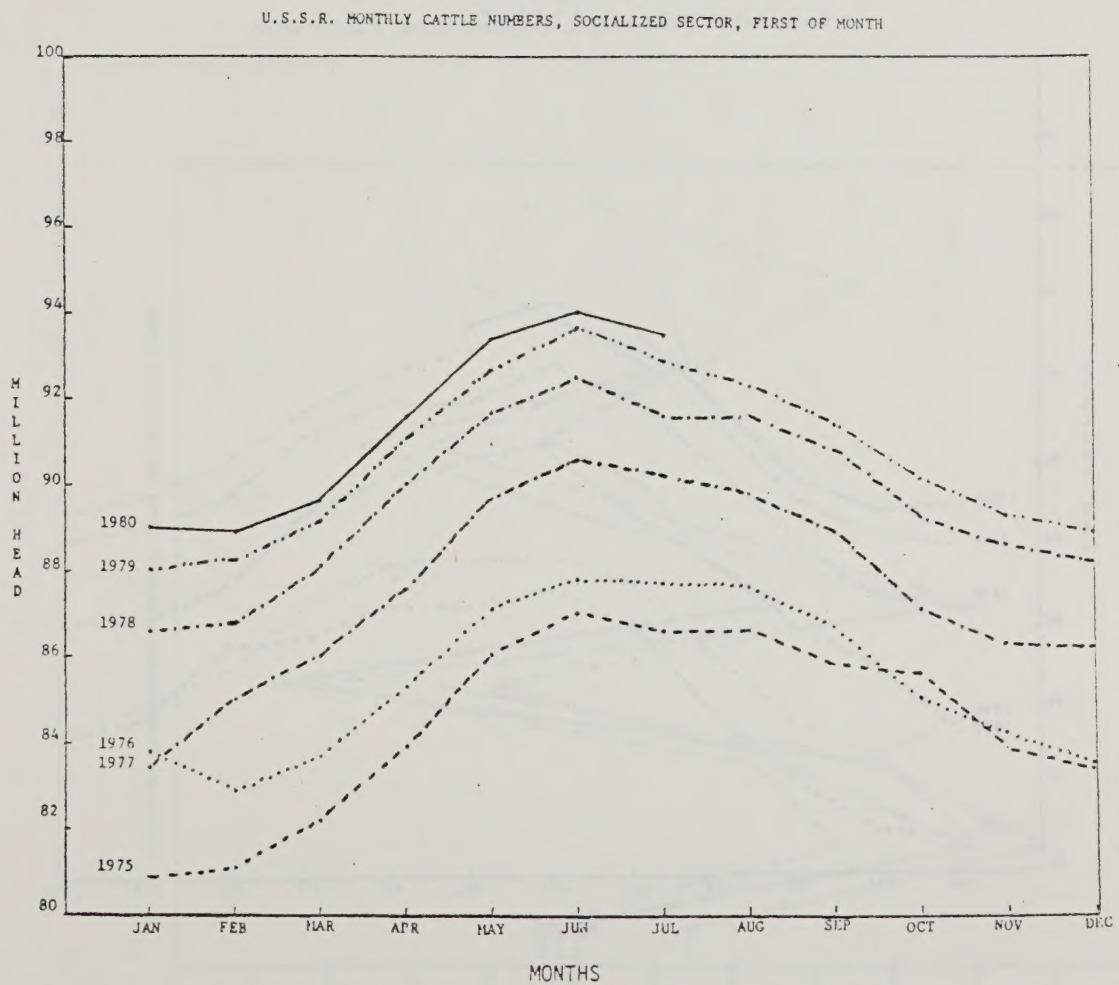
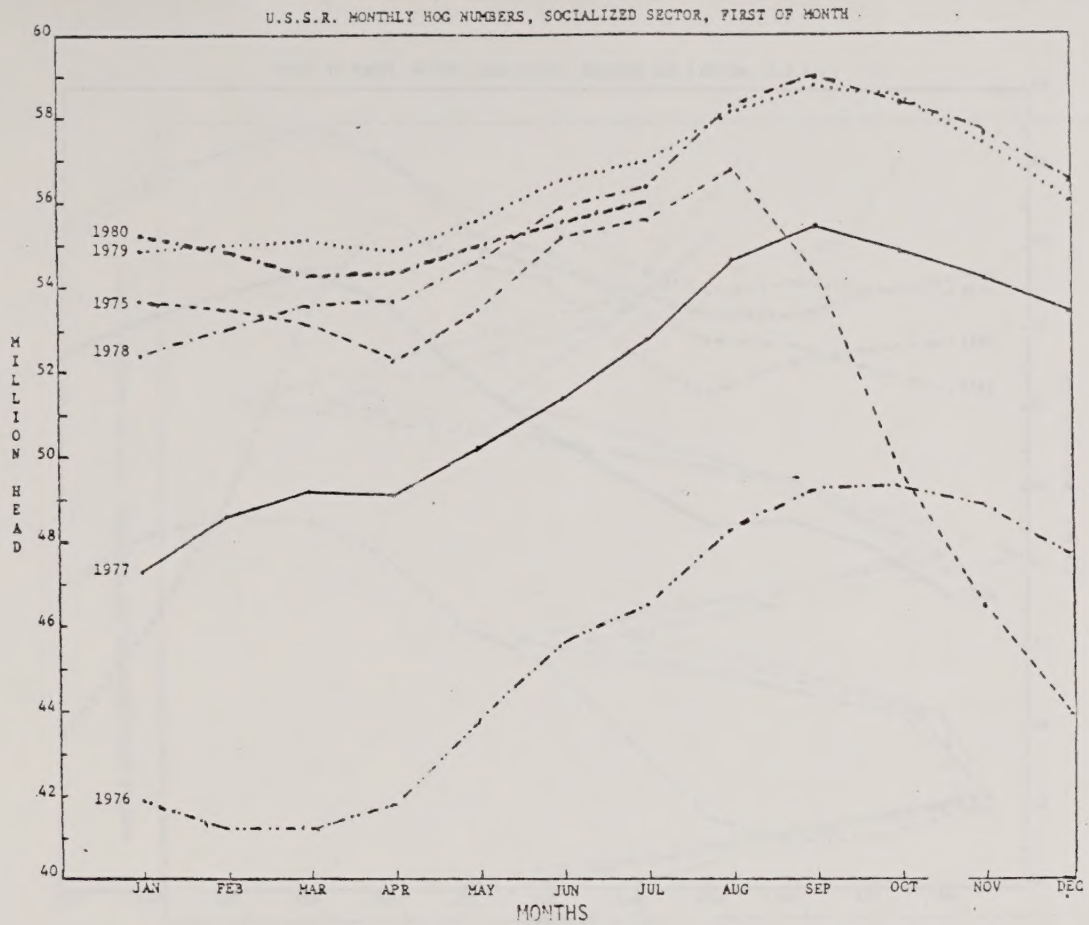
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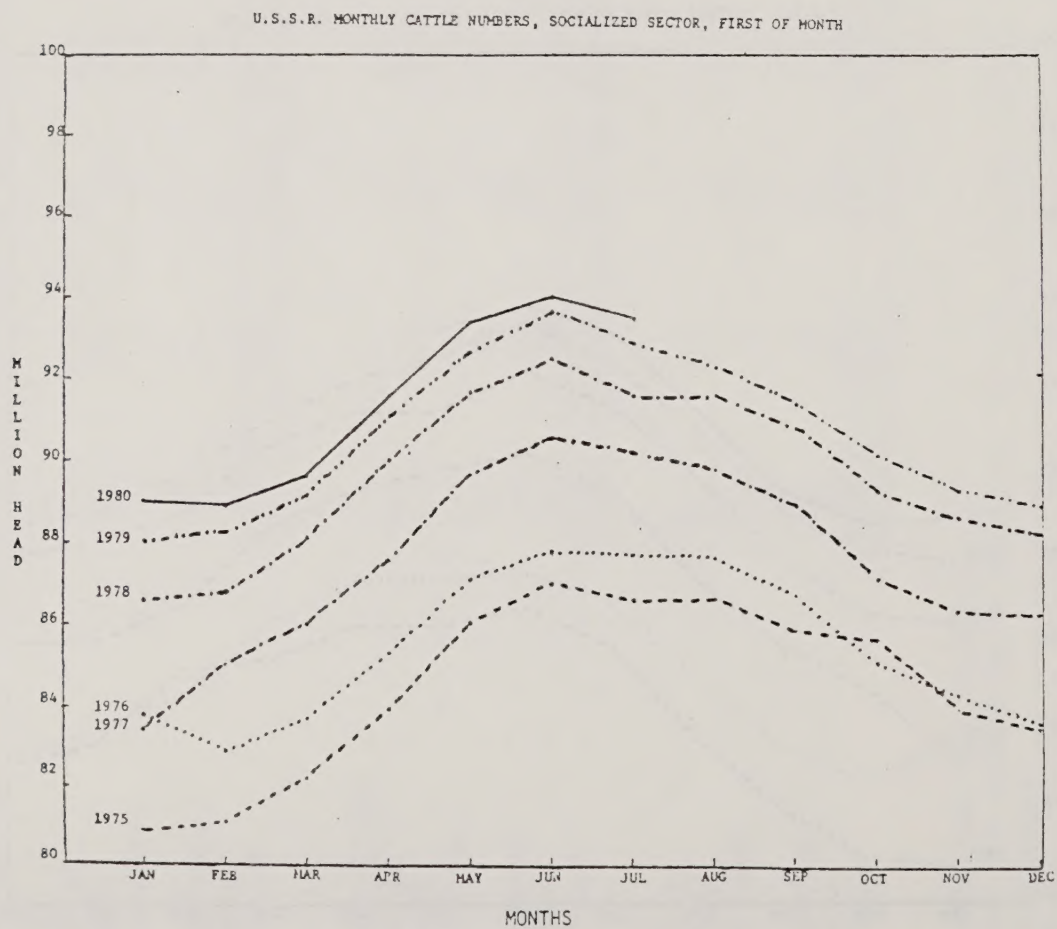
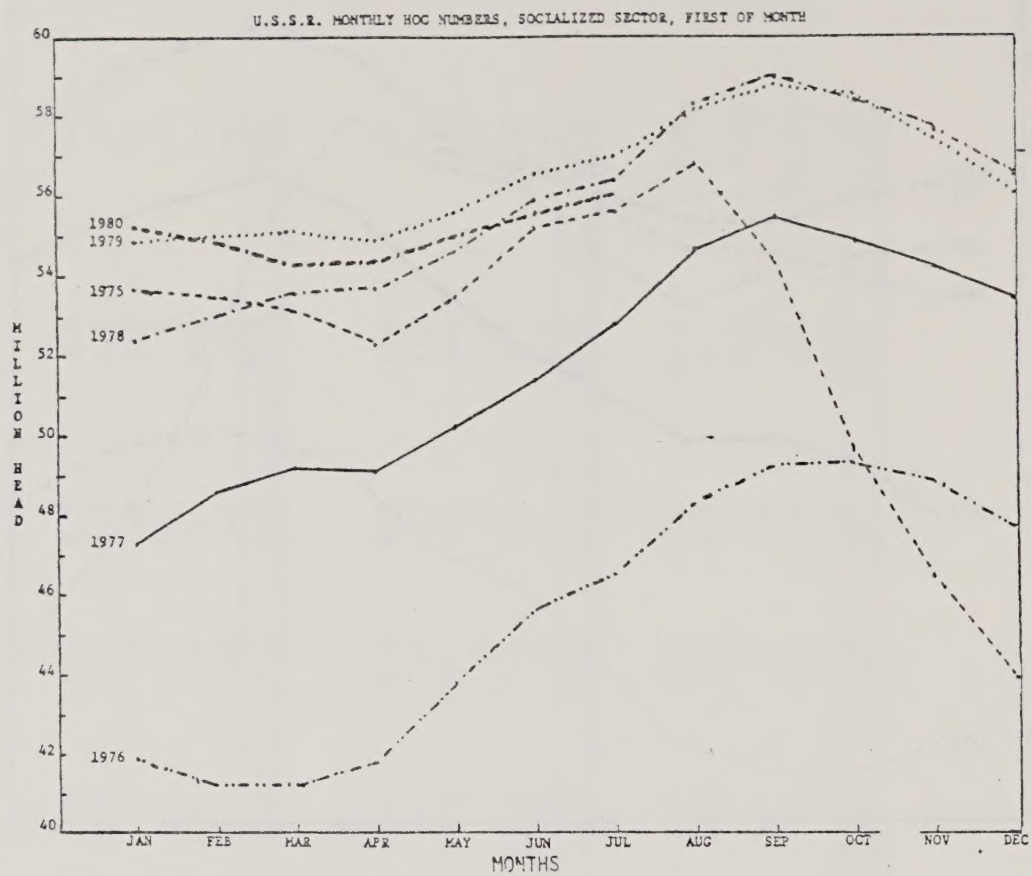
2/ Forecast, based on indicated sales to date and historical levels of exports.

3/ U.S. exports based upon Export Sales data, which normally include transshipments whereas Census data may not.

SOURCE: Based on reports of countries exporting to the USSR.

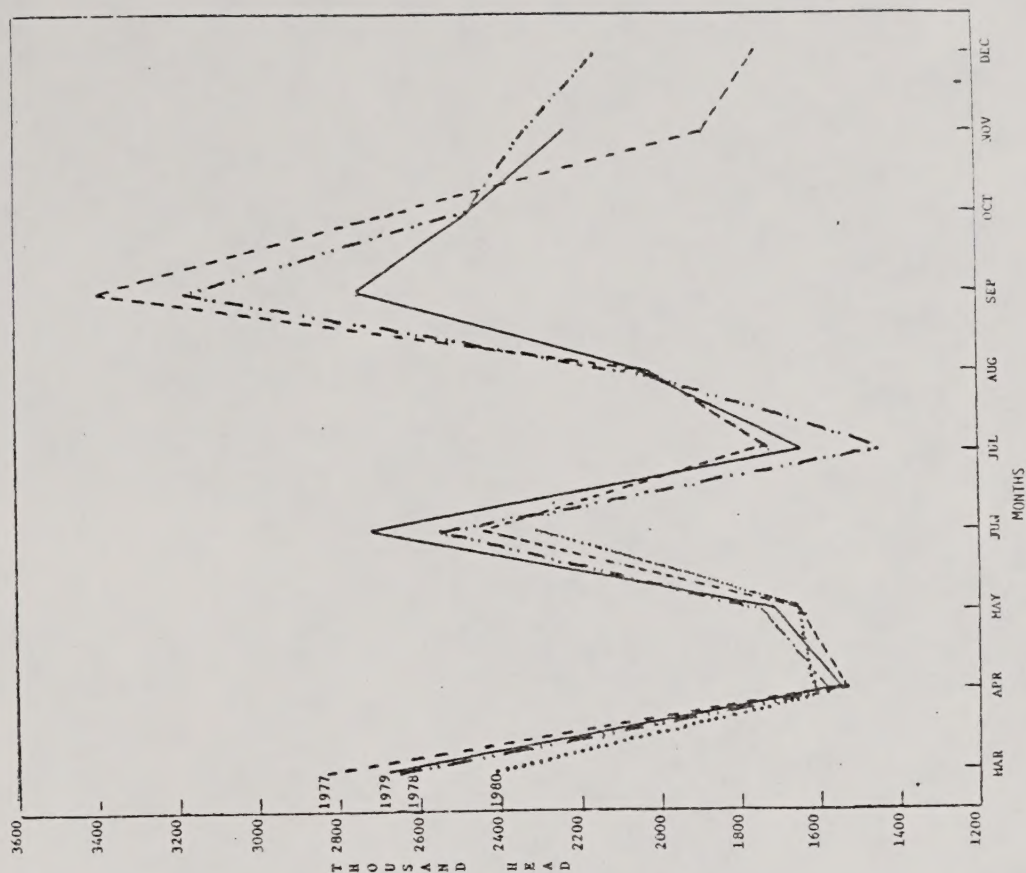




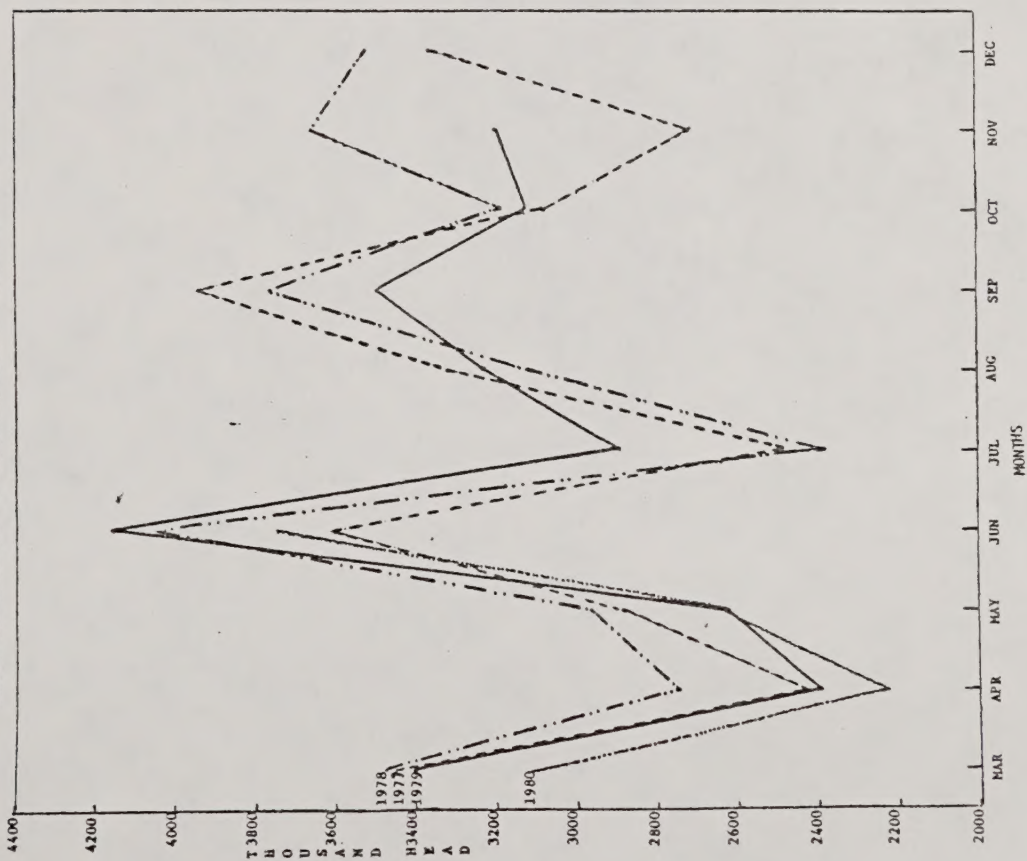




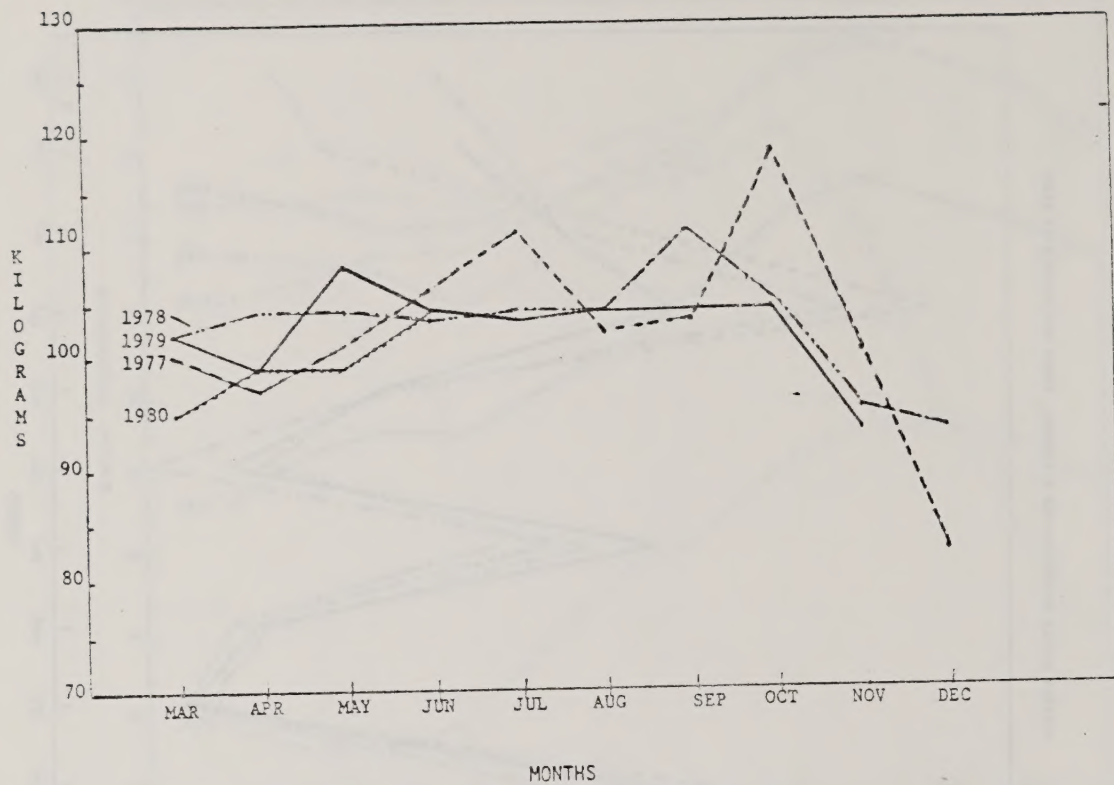
MONTHLY CATTLE MARKETING FOR SLAUGHTER, STATE AND COLLECTIVE FARMS



MONTHLY HOG MARKETING FOR SLAUGHTER, STATE AND COLLECTIVE FARMS



HOGS FOR SLAUGHTER, AVERAGE LIVELWEIGHT, STATE AND COLLECTIVE FARMS



CATTLE FOR SLAUGHTER, AVERAGE LIVELWEIGHT, STATE AND COLLECTIVE FARMS

